



General Assembly

January Session, 2007

Raised Bill No. 7251

LCO No. 4132

04132_____ET_

Referred to Committee on Energy and Technology

Introduced by:
(ET)

AN ACT CONCERNING UTILITY AUDITS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 16-8 of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective from passage*):

3 (a) The Department of Public Utility Control may, in its discretion,
4 delegate its powers, in specific cases, to one or more of its
5 commissioners or to a hearing examiner to ascertain the facts and
6 report thereon to the department. The department, or any
7 commissioner thereof, in the performance of its duties or in connection
8 with any hearing, or at the request of any person, corporation,
9 company, town, borough or association, may summon and examine,
10 under oath, such witnesses, and may direct the production of, and
11 examine or cause to be produced and examined, such books, records,
12 vouchers, memoranda, documents, letters, contracts or other papers in
13 relation to the affairs of any public service company as it may find
14 advisable, and shall have the same powers in reference thereto as are
15 vested in magistrates taking depositions. If any witness objects to
16 testifying or to producing any book or paper on the ground that such
17 testimony, book or paper may tend to incriminate him, and the

18 department directs such witness to testify or to produce such book or
19 paper, and he complies, or if he is compelled so to do by order of court,
20 he shall not be prosecuted for any matter concerning which he has so
21 testified. The fees of witnesses summoned by the department to appear
22 before it under the provisions of this section, and the fees for
23 summoning witnesses shall be the same as in the Superior Court. All
24 such fees, together with any other expenses authorized by statute, the
25 method of payment of which is not otherwise provided, shall, when
26 taxed by the department, be paid by the state, through the business
27 office of the department, in the same manner as court expenses. The
28 department may designate in specific cases a hearing examiner who
29 may be a member of its technical staff or a member of the Connecticut
30 Bar engaged for that purpose under a contract approved by the
31 Secretary of the Office of Policy and Management to hold a hearing
32 and make report thereon to the department. A hearing examiner so
33 designated shall have the same powers as the department, or any
34 commissioner thereof, to conduct a hearing, except that only a
35 commissioner of the department shall have the power to grant
36 immunity from prosecution to any witness who objects to testifying or
37 to producing any book or paper on the ground that such testimony,
38 book or paper may tend to incriminate him.

39 (b) (1) In the performance of its duties the Department of Public
40 Utility Control may establish management audit teams as a regular
41 and continuing component of its staff. The management audit teams
42 shall be composed of personnel with a professional background in
43 accounting, engineering or any other training as the department may
44 deem necessary to assure a competent and thorough review and audit.
45 The department shall promptly establish such procedures as it deems
46 necessary or desirable to provide for management audits to be
47 performed on a regular or irregular schedule on all or any portion of
48 the operating procedures and any other internal workings of any
49 public service company, including the relationship between any public
50 service company and a related holding company or subsidiary,
51 consistent with the provisions of section 16-8c, provided no such audit

52 shall be performed on a community antenna television company,
53 except with regard to any noncable communications services which
54 the company may provide, or when (A) such an audit is necessary for
55 the department to perform its regulatory functions under the
56 Communications Act of 1934, 47 USC 151, et seq., as amended from
57 time to time, other federal law or state law, (B) the cost of such an audit
58 is warranted by a reasonably foreseeable financial, safety or service
59 benefit to subscribers of the company which is the subject of such an
60 audit, and (C) such an audit is restricted to examination of the
61 operating procedures that affect operations within the state.

62 (2) In any case where the department determines that an audit is
63 necessary or desirable, it may (A) order the audit to be performed by
64 one of its management audit teams, (B) require the affected company
65 to perform the audit utilizing the company's own internal
66 management audit staff as supervised by designated members of the
67 department's staff, or (C) require that the audit be performed under
68 the supervision of designated members of the department's staff by an
69 independent management consulting firm selected by the department,
70 in consultation with the [affected company. If the affected company
71 has more than seventy-five thousand customers, such independent
72 management consulting firm shall be of nationally-recognized stature]
73 Office of Consumer Counsel after a request for proposal process. The
74 affected company shall be consulted with respect to the selection of a
75 management consulting firm only as to the existence of any conflicts of
76 interest. All reasonable and proper expenses of the audits, including,
77 but not limited to, the costs associated with the audit firm's testimony
78 at a public hearing or other proceeding, shall be initially borne by the
79 affected companies with compensation from the ratepayers or
80 customers of the affected companies under the conditions stated in
81 subdivision (6) of this subsection and shall be paid by such companies
82 at such times and in such manner as the department directs.

83 (3) For purposes of this section, a complete audit shall consist of (A)
84 a diagnostic review of all functions of the audited company, which

85 shall include, but not be limited to, documentation of the operations of
86 the company, assessment of the company's system of internal controls,
87 and identification of any areas of the company which may require
88 subsequent audits, and (B) the performance of subsequent focused
89 audits identified in the diagnostic review and determined necessary by
90 the department, in consultation with the Office of Consumer Counsel.
91 All audits performed pursuant to this section shall be performed in
92 accordance with generally accepted management audit standards. The
93 department shall adopt regulations in accordance with the provisions
94 of chapter 54 setting forth such generally accepted management audit
95 standards. Each audit of a community antenna television company
96 shall be consistent with the provisions of the Communications Act of
97 1934, 47 USC 151, et seq., as amended from time to time, and of any
98 other applicable federal law. The department shall certify whether a
99 portion of an audit conforms to the provisions of this section and
100 constitutes a portion of a complete audit.

101 (4) A complete audit of each portion of each gas, electric or electric
102 distribution company having more than seventy-five thousand
103 customers shall begin no less frequently than every six years, so that a
104 complete audit of such a company's operations shall be performed
105 every six years. Such an audit of each such company having more than
106 seventy-five thousand customers shall be updated as required by the
107 department.

108 (5) The final results of an audit performed pursuant to this section
109 shall be filed simultaneously with the department and the Office of
110 Consumer Counsel and shall be open to public inspection. The audit
111 shall be completed within one year following a department order that
112 it be performed. Any preliminary or draft versions of the audit shall
113 also be made available to the department and the Office of Consumer
114 Counsel immediately upon issuance to the company. Upon completion
115 and review of the audit, if the person or firm performing or
116 supervising the audit determines that any of the operating procedures
117 or any other internal workings of the affected public service company

118 are inefficient, improvident, unreasonable, negligent or in abuse of
119 discretion, the department may, after notice and opportunity for a
120 hearing, order the affected public service company to adopt such new
121 or altered practices and procedures as the department shall find
122 necessary to promote efficient and adequate service to meet the public
123 convenience and necessity. The department shall annually submit a
124 report of audits performed pursuant to this section to the joint
125 standing committee of the General Assembly having cognizance of
126 matters relating to public utilities, with a copy to the Office of
127 Consumer Counsel, which report shall include the status of audits
128 begun but not yet completed and a summary of the results of audits
129 completed.

130 (6) All reasonable and proper costs and expenses, as determined by
131 the department, of complying with any order of the department
132 pursuant to this subsection shall be recognized by the department for
133 all purposes as proper business expenses of the affected company,
134 except that in cases where the audit uncovers imprudent management
135 practices or fraud, company shareholders shall bear the costs and
136 expenses.

137 (7) After notice and hearing, the department may modify the scope
138 [and schedule] of a management audit of a telephone company which
139 is subject to an alternative form of regulation so that such audit is
140 consistent with that alternative form of regulation.

141 (c) Nothing in this section shall be deemed to interfere or conflict
142 with any powers of the department or its staff provided elsewhere in
143 the general statutes, including, but not limited to, the provisions of this
144 section and sections 16-7, 16-28 and 16-32, to conduct an audit,
145 investigation or review of the books, records, plant and equipment of
146 any regulated public service company.

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| <p>This act shall take effect as follows and shall amend the following sections:</p> |
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| Section 1 | <i>from passage</i> | 16-8 |
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Statement of Purpose:

To modify the utility management audit requirements.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]